



**Ron G. Crane**  
**Idaho State Treasurer**

---

## **IMBB Lending Criteria**

### **Introduction**

The Idaho Bond Bank (the “Bond Bank” or the “IBB”) has been created to provide a low-cost financing option to local municipalities in Idaho. The Bond Bank is an independent authority, and is administered by a board consisting of the Idaho State Treasurer, one member of the Senate, one member of the House of Representatives, and two members appointed by the governor.

The Bond Bank combines the bonds issued by multiple local municipalities into a single large tax-exempt bond and then sells that bond in the municipal bond market. Selling this large bond attracts buyers who are interested in large purchases, creates a wider distribution of fixed costs through economies of scale, and broadens demand on a national and state level. The Bond Bank maintains a high investment grade rating (Aa2) from Moody's Investors Service which allows it to obtain lower interest rates than most local governmental entities can obtain independently.

The Bond Bank's high credit rating is a result of the strong credit that secures the program, which is primarily a function of the State's sales tax pledge.

Although the pledge of the State's sales tax revenues provide significant credit enhancement to the Bond Bank, the following credit policies have been developed to diminish the likelihood that the State's sales tax revenues will ever be utilized to make payments for a delinquent borrower.

The Bond Bank has developed these lending criteria to meet this goal. Overly restrictive lending criteria can defeat the first goal of making funds readily available to local governments, but liberal lending policies can result in delayed or defaulted loan repayments from uncreditworthy program borrowers, potentially undermining the program's credit rating, or diminishing the support for the program.

### **Underwriting Standards**

A key to the successful management of a pooled loan program is the establishment and maintenance of underwriting standards. The underwriting standards define the types of loans the program makes and under what conditions the loans are made. The following is a summary of credit standards and underwriting criteria for the Idaho Bond Bank program.



**Ron G. Crane**  
**Idaho State Treasurer**

---

### Qualitative Analysis

- I. Completeness of Application
  - A. Ensure that Loan Application is complete, including attachments and exhibits
  - B. Ascertain that governing body of borrower has approved loan application
  - C. Affirm that the borrower is an eligible applicant
- II. Evaluation of Capital Planning
  - A. Inquire of borrower whether or not borrower has other unmet capital needs

### Quantitative Analysis

- I. For Loans secured solely by a limited revenue pledge, including a Sales Tax Pledge or Enterprise Revenues
  - A. Evaluation of specific pledge
    - 1. Determine the amount of revenue to be derived from tax sources or enterprise revenues
    - 2. Evaluate historical revenues from the source
    - 3. Verify that the purpose of the financing can be secured by source
    - 4. Determine amount and pledge status of any other debt secured by the specific source
  - B. Impact of borrowing on operating and other funds
    - 1. Measure revenue from pledged source against total operating budget
    - 2. Determine effect on operating budget from use of the source for financing purposes
    - 3. Project impact on fund balances and cash flow
  - C. Minimum Debt Service Coverage
    - 1. For Sales Tax Pledge or other limited tax pledge
      - a) Minimum 3-year historical coverage, including new loan -- 1.50X
    - 2. For other enterprise revenue pledge
      - a) Minimum 3-year historical coverage, including new loan -- 1.25X
    - 3. For enterprise revenue pledge with approved rate increases
      - a) Minimum forecast coverage, including new loan -- 1.25X; and
      - b) Minimum historical pledged revenue (based on no less than 3 year history) produces minimum forecast coverage, including new loan -- 1.00X
- II. For Loans secured by a General Obligation Pledge
  - A. Evaluation of specific pledge
    - 1. Confirm voter approval
    - 2. Verify that purpose of financing is consistent with a general obligation pledge
  - B. Impact of borrowing on operating and other funds
    - 1. Determine if financed project will result in an increase in annual operating costs to the borrower
    - 2. Project impact on general fund balances and cash flow.



**Ron G. Crane**  
**Idaho State Treasurer**

C. For Tax Anticipation Note Borrowings secured by the Full Faith and Credit

1. Verify that purpose of financing is consistent with a note financing
2. Review borrower cash flow forecasts to confirm that note borrowing fits within tax law requirements

III. For Start-up Enterprises

A. Evaluation of Projections

1. Determine source of projections for capital cost
2. Evaluate data regarding use projections
3. If project includes tax source plus user fees, confirm prior years' tax revenues
4. Evaluate debt coverage under conservative assumptions

B. Comparison of Start-up to status quo

1. Evaluate current cost of alternatives, if known
2. Evaluate cost increases, if any

C. Minimum Debt Service Coverage

1. If dedicated tax produces projected coverage of at least 1.00X  
Minimum Projected Total Coverage of 1.50X
2. If dedicated tax produces coverage of less than 1.00X
  - a) And non-tax sources are at least 33% of projected revenues, Minimum Required Project Coverage of 2.00X
  - b) And non-tax sources are less than 33% of projected revenues, Minimum Required Projected Coverage of 1.75X

IV. Borrowers formed through Joint Powers or Inter-governmental Agreement will be evaluated for legal and structural feasibility, then for financial viability on following criteria

A. Evaluation of Agreements

1. Review agreements for consistency
2. Determine applicable conditions for termination and/or continuation of agreements
3. Review minutes of meetings where agreements were authorized

B. Evaluate public support

1. Confirm vote which approved agreements
2. Obtain legal opinion from local counsel re: participation

C. Minimum Debt Service Coverage

1. For Sales Tax Pledge
  - a) Minimum 3-year historical coverage, including new loan -- 1.50X
2. For other enterprise revenue pledge
  - a) Minimum 3-year historical coverage, including new loan -- 1.25X



**Ron G. Crane**  
**Idaho State Treasurer**

---

V. For All Borrowers

A. Evaluate Financial Condition

1. Review at least the previous three years' audited financial statements, if applicable
  - a) Verify "unqualified" audit opinion
  - b) For any audit opinion other than "unqualified", borrower is assumed not qualified for a loan unless the IBB is convinced by other evidence that a loan is viable
  - c) If the audit opinion is a "disclaimer", the IBB may impose any extraordinary conditions it deems reasonable to secure the loan
2. Conduct financial analysis of borrower's general credit
  - a) Perform analysis of financial statements using criteria appropriate for analysis of municipal credits
  - b) Review any Official Statements used in conjunction with the issuance of bonds
  - c) Conduct discussions with the borrower's Financial Advisor/ Underwriter to assist in the evaluation of financial condition
  - d) Review reports of bond rating agencies where applicable
  - e) Review existing property tax rates and general obligation bonding capacity

B. Evaluate Economic/Demographic Trends

1. Examine population trends
2. Examine assessed value trends

C. Evaluate Legal Authority

1. State law
2. Federal tax law

D. Evaluate the Necessity of Reserves Funded at Closing

1. In general, each borrower receiving a loan from the IBB will not be required to provide a fully funded reserve
2. Exceptions to this requirement will be made only in the case where the security for the loan is necessitates the funding of a reserve, as deemed by the IBB and by feedback from rating agencies then rating IBB bonds

E. Evaluate Coverage by State-Shared Revenues

1. In general, each borrower receiving a loan from the IBB that receives State-shared revenues and consents to the intercept of those funds should demonstrate that the historic 3-year average of State-shared revenues available to for intercept to cure a deficiency (for example, excluding State-shared Highway User Funds for non-transportation-related projects) equal or exceed the estimated debt service on the proposed IBB loan. For borrowers that cannot or will not consent, or cannot meet the 1 times coverage requirement, the Board will consider those applications based on other financial and credit criteria



**Ron G. Crane**  
**Idaho State Treasurer**

---

## VI. Priority of Liens

- A. The IBB will, in general, insist on a lien status from borrowers on parity with other senior lien debt secured by the same source of funds. Exceptions to this policy will be allowed if one or more of the following conditions are met:
  - 1. An additional source, or sources, of revenue are pledged that provide sufficient additional security to the IBB.
  - 2. The borrower has outstanding subordinate lien debt that has been rated in an investment grade category.
  - 3. The borrower has outstanding senior lien debt that has been rated in the third highest rating category or higher, and the rate covenant associated with the subordinate lien obligations and additional bonds test requires coverage of at least 1.25 times.

## Loan Eligibility Determination

### I. Staff Recommendation

- A. IBB staff will make a recommendation regarding loan eligibility, including:
  - 1. Loan amount
  - 2. Loan terms and conditions
- B. If IBB staff does not recommend approving a loan, staff will provide its reasoning in writing
- C. Bond Bank Board has the authority to waive or amend credit standards as necessary to address the needs of a particular borrower